



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 2nd day of July, 2002

Essential Air Service at

Gallup, New Mexico

under 49 U.S.C. 41731 *et seq.*

Docket OST-1998-4706

ORDER TO SHOW CAUSE

SUMMARY

By this order, the Department is tentatively terminating the subsidy eligibility of Gallup, New Mexico, under the essential air service (EAS) program because the subsidy per passenger exceeds the \$200 per passenger statutory ceiling and the community is less than 210 highway miles from the medium hub airport at Albuquerque, New Mexico.

BACKGROUND

By Order 2000-6-8, June 9, 2000, the Department authorized an annual subsidy rate of \$691,080 for Mesa Airlines, Inc. (Mesa), for the two-year period ending on October 31, 2001, to provide EAS at Gallup, consisting of 18 nonstop or one-stop round trips each week to either Phoenix or Albuquerque, with 19-seat Beech 1900D aircraft. As we approached the end of that two-year contract period, we learned that other air carriers were interested in serving Gallup; hence, we issued Order 2001-9-5, September 10, 2001, in which we requested proposals to provide EAS for a new, two-year period.

Four carriers responded with proposals, and their negotiated rate agreements are summarized below.

Mesa, a subsidiary of Mesa Air Group, Inc., offered a proposal with two service options: (A) three nonstop round trips between Gallup and Albuquerque each weekday and each weekend with 19-passenger Beech 1900D aircraft for \$1,071,045

annually; and (B) two nonstop round trips to Albuquerque each weekday and each weekend with Beech 1900D aircraft for \$826,339 annually. (Each of these rates is for the first of two years of service; a rate for the second year would be negotiated with the carrier towards the end of the first year.)

Rio Grande Air (Rio Grande) proposed to provide four nonstop round trips between Gallup and Albuquerque on four weekdays; three nonstop round trips on the fifth weekday; and five nonstop round trips over the weekend period. That service would be provided with 9-passenger Cessna Caravan aircraft for an annual subsidy rate of \$792,140. While Rio Grande would retain some flexibility in its weekly scheduling, the carrier would provide at least 24 nonstop round trips a week to Albuquerque.

AEX AIR, d/b/a AEX, Inc. (AEX) proposed two service options: (A) 18 round trips each week over the routing Gallup-Show Low (Arizona)-Phoenix for \$2,031,420 annually. Six of these round trips would be operated with Piper Navajo Chieftain aircraft and 12 would be operated with Beech King Air 200 aircraft; and (B) 14 round trips each week over the routing Gallup-Show Low-Phoenix for \$1,415,041 annually. Seven of these round trips each week would be operated with Piper Navajo Chieftain aircraft and seven would be operated with Beech King Air 200 aircraft.¹ (Each of these rates is for the first of two years of service; a rate for the second year would be negotiated with the carrier towards the end of the first year.)

Arizona Express Airlines, Inc., proposed two service options using Beech B1900C aircraft, configured with 9 passenger seats: (A) 12 nonstop round trips a week between Gallup and Phoenix (as well as 14 nonstop round trips between Show Low, Arizona, and Phoenix each week) for \$1,237,499 annually; and (B) 12 nonstop round trips a week between Gallup and Phoenix for \$854,200 annually.

As is our usual practice after concluding rate agreements with prospective carriers, the Department solicited the final comments of Gallup officials regarding the carriers' service and subsidy proposals prior to selecting a carrier and service proposal. On March 28, 2002, we received a letter from Mayor Pena of Gallup that, among other things, indicated that the community intended to meet with each of the airlines before making a recommendation to us. He also stated that the community was overwhelmingly in favor of service to Phoenix rather than to Albuquerque. Among the documents included with Mayor Pena's letter was a copy of a newspaper article from *The Independent* of Gallup, dated February 5, 2002, that indicated that Mesa's subsidy rate of \$691,000 resulted in a subsidy per passenger of "about \$1,000 for every passenger it (Mesa) flies out of Gallup."

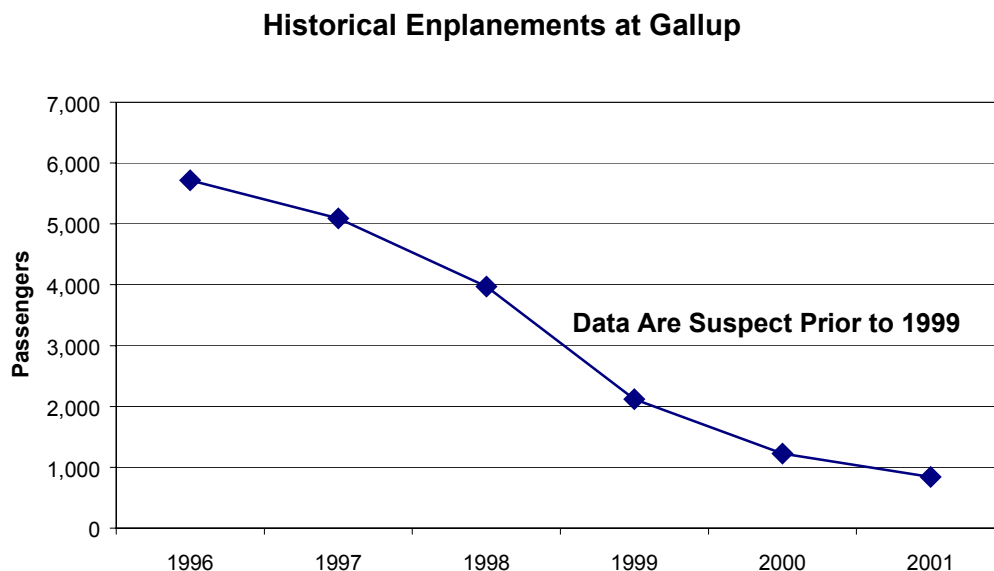
¹ Since all of AEX's Gallup proposals are inextricably linked to its being selected at Show Low, Arizona, and because the Department recently selected Arizona Express for Show Low's EAS, its proposals in this case are moot. (See Orders 2002-4-21 and 2002-5-21.)

On April 16, 2002, Gallup officials met with representatives of each of the four airlines. On April 17, 2002, the Mayor requested that each of the applicants be given an opportunity to submit revised proposals for service to Phoenix as the community's preferred hub.

On April 18, 2002, Mesa submitted a proposal to provide service to Phoenix rather than to Albuquerque. On April 25, 2002, both AEX and Arizona Express submitted letters to the Department opposing Mesa's late-filed proposal. On May 8, 2002, the Mayor of Gallup reiterated the community's preference for service to Phoenix.

TRAFFIC LEVELS

Beginning in about 1990, Mesa began to report Farmington, New Mexico, passengers in with the passengers they reported at Gallup, thus inflating Gallup traffic and making it appear that the community was generating considerably more passengers than was actually the case. As a result of the misreporting, passenger levels at Gallup appeared to be much higher than they actually were through 1998. It appears that the passenger data have been reported correctly since 1999. The graph below shows Gallup's historical passenger enplanements from 1996 through 2001, even though the data are suspect prior to 1999.²



DECISION

² When we first became aware of passenger data reporting problems with Mesa, we alerted the Department's Bureau of Transportation Statistics (BTS). Carriers are required to submit passenger data on a quarterly basis showing the number of passengers they pick up and discharge at each community in their system. BTS sent Mesa a letter on September 22, 2000, requiring Mesa and its subsidiary, Air Midwest, to resubmit all quarterly on-line traffic reports from the 1st quarter 1999 forward.

The Department is prohibited from subsidizing service at communities where subsidy amounts to more than \$200 per passenger, unless they are more than 210 miles from the nearest large or medium hub.³ Because Gallup's subsidy per passenger exceeds the statutory cap of \$200 per passenger, and Albuquerque is well within 210 miles, we find that it is ineligible for continued subsidy support and have tentatively decided to terminate Mesa's subsidy rate for serving the community effective on the 21st day following the date of service of this order. Mesa would be free to discontinue service at that time.

Mesa's current annual subsidy rate for Gallup - Albuquerque service, \$691,080, is based on a projection of carrying 3,756 passengers a year to and from the community. Instead of the 3,756 *projected* annual passengers, however, Mesa in fact *carried* only 2,382 passengers (enplanements and deplanements) in 2000, resulting in an actual subsidy of \$290 per passenger. Based on the 1,681 total passengers using the Gallup - Albuquerque service in 2001, the subsidy amounts to \$411 per passenger.

Because we do not take a decision to terminate a community's subsidy eligibility lightly, we have also examined the situation in the context of service proposals from prospective replacement carriers to see if there are any viable options at less than \$200 per passenger. The four carriers' options vary widely in the type of service they would provide, e.g., service to different hubs, code-share and non code-share carriers, and both 9-seat and 19-seat options. Yet, none of them fall anywhere near the \$200 per passenger cap. The least expensive option in terms of subsidy is Arizona Express's option that is linked to Show Low. As we mentioned earlier, in Footnote 1, Arizona Express was in fact selected for Show Low's EAS. Its subsidy requirement for the two-city "package" is \$1,237,499. Since we have already authorized \$538,432 in subsidy for Show Low (Order 2002-4-21), the additional subsidy to serve Gallup would be \$699,067, not the full \$854,200 required for a "stand-alone" Gallup proposal. Even at this rate, the subsidy-per-passenger would be \$293 based on 2,382 passengers carried in calendar year 2000, a subsidy-per-passenger well over \$400 based on the 1,681 total passengers carried in calendar year 2001. And this is the least expensive option. For continuation of status-quo service, Mesa requires an annual subsidy of \$1,071,045, or subsidies-per-passenger of \$450 and \$637 respectively for calendar years 2000 and 2001.

Thus, it is apparent that there is no alternative under which we could continue to secure air service for Gallup at a subsidy-per-passenger even close to the \$200 ceiling. Based on all of the above, therefore, we have tentatively decided to terminate Gallup's subsidy eligibility.

³ Congress first imposed that eligibility standard in fiscal year 1992 appropriations language and repeated it every year through fiscal year 1999. Then, by P.L. 106-69, the Department of Transportation and Related Agencies Appropriations Act, 2000, Congress made it a permanent eligibility standard.

Consistent with program practice, we will give the community 20 days after the service date of this order to object if it finds that we have made a mistake in any of our calculations. If we receive no objections, Mesa is permitted to suspend service after the end of the 20-day period. If we receive properly filed objections within the 20-day period, we will require Mesa to continue to serve Gallup until we issue a final order dealing with those objections. Interested carriers, including Mesa, may of course provide scheduled service at Gallup on their own initiative. Our action here simply makes the community ineligible to receive subsidized air service.

Before Mesa terminates service, we expect it to contact all passengers holding reservations for travel after the suspension date, to notify them of the suspension of service and the availability of nearby air services, and to assist them in making alternate travel arrangements.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. We tentatively terminate the subsidy eligibility of Gallup, New Mexico, effective 21 days after the date of service of this order, and allow Mesa Aviation to terminate service on that date;
2. We direct all interested persons to show cause within 20 days of the date of service of this order why we should not make final the tentative findings and conclusions set forth in paragraph 1 above.⁴ If no objections are filed, all procedural steps will be deemed waived, and this order shall become effective on the 21st day following the date of service;⁵
3. If we receive objections, we will require Mesa to continue its Gallup service until we issue a final order dealing with the objections. We will afford full consideration to the matters and issues raised in any timely and properly filed objection to this order;
4. This docket will remain open until further order of the Department; and
5. We will serve a copy of this order on the Mayor and airport manager of Gallup, New Mexico, the Governor of New Mexico, the Aviation Division of the New Mexico State Highway and Transportation Department, Mesa Air Group, Inc., Rio Grande Air, AEX, Inc., and Arizona Express Airlines, Inc.

⁴ Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

⁵ Objections should be filed with Dockets Operations and Media Management, SVC-124, Room Pl-401, 400 7th Street, S.W., Washington, D.C. 20590

By:

READ C. VAN DE WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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Historical Passenger Traffic at Gallup, New Mexico

Year	Enplanements	Average Daily Enplanements	Deplanements	Total Annual Passengers
1996	5,716	18.3	5,612	11,328
1997	5,089	16.3	4,916	10,005
1998	3,969	12.7	3,660	7,629
1999	2,119	6.8	1,931	4,050
2000	1,223	3.9	1,159	2,382
2001	874	2.8	807	1,681

Source: Bureau of Transportation Statistics, Form 298-C, Schedule T-1, as reported by Mesa Air Group, Inc. Averages refer to passenger enplanements per service day, based on 313 service days each year. Data for the years 1996 through 1998 appear to have been misreported.